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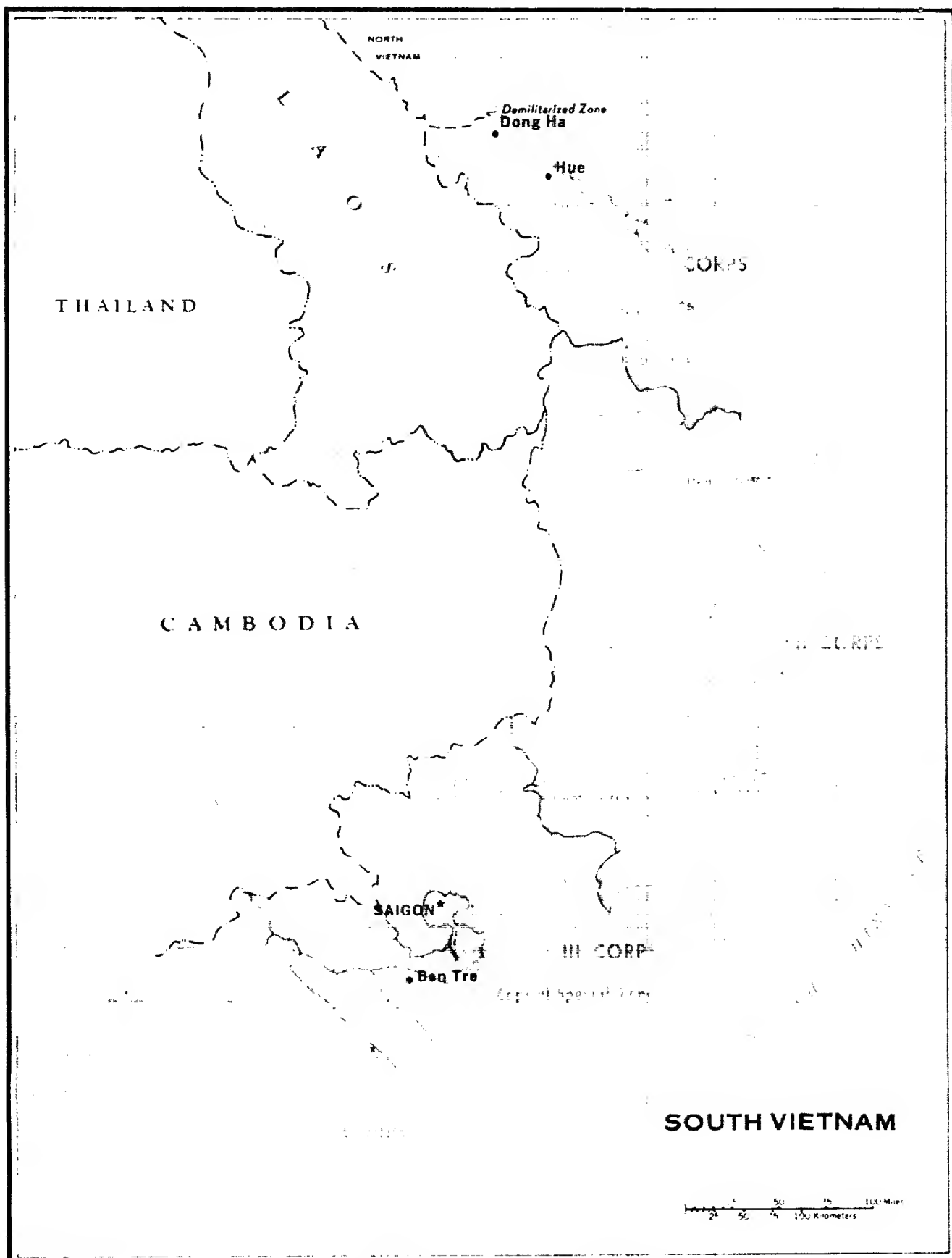
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[South Vietnam: [Prime Minister Loc has indicated that he will not retire gracefully.]



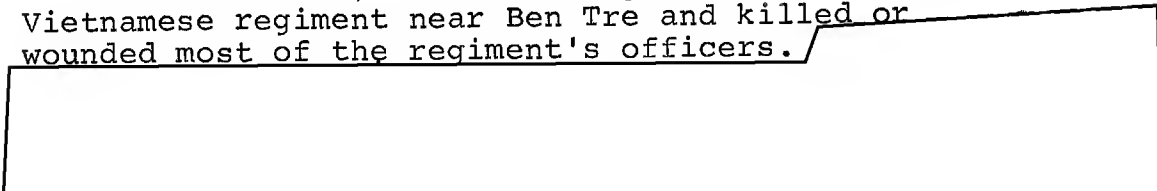
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Communist forces are maintaining their offensive in both the northern provinces and in the Saigon area.

The heaviest fighting in Saigon yesterday was concentrated in the Cholon quarter where battalion-size Viet Cong forces staged raids against police stations and public utility facilities.

In the northern provinces the Communists maintained a high level of mortar and rocket fire against allied objectives in the Demilitarized Zone and in three provincial capitals. North Vietnamese regulars continued to offer stubborn resistance near Dong Ha and Hue.

In the delta, the Viet Cong ambushed a South Vietnamese regiment near Ben Tre and killed or wounded most of the regiment's officers.



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*Communist China - North Vietnam: [There are indications that the Chinese have been angered by Hanoi's decision to talk with the US.]

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[Peking has apparently accepted this situation for some time and the Chinese have been careful to leave themselves room for maneuver on the question of negotiations.]

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[] Chinese officials have decried peace talks

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but have said that in the last analysis the decision was up to Hanoi. Foreign Minister Chen Yi denied last February that the Chinese had decisive influence with the Vietnamese and commented that "one has to know the Vietnamese to know that even if China wished to do so, neither we nor the Russians could influence Hanoi."

25X1 [There were signs in early April that Peking was moving reluctantly toward acceptance of talks between North Vietnam and the US.]

25X1 [Previously senior Chinese officials have always limited their remarks on this subject to blanket denunciations of negotiations as a "fraud."]

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25X1 [*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.]

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[USSR-Czechoslovakia: The Soviet leaders and their closest East European allies have gathered in Moscow to consider what pressures they can agree to apply against Czechoslovakia.

The party bosses of East Germany, Poland, Hungary, and Bulgaria flew into the Soviet capital yesterday. The omission of Czechoslovak and Rumanian leaders underscores the dismay of the Soviet leaders and their supporters at Prague's failure to put a check on Czechoslovakia's unorthodox trend. The meeting itself in these circumstances is a form of psychological pressure on Prague and implies that the leaders meeting in Moscow may be prepared to act in concert, perhaps through economic measures, to bring Prague into line.

Soviet impatience with Prague was signaled on 7 May when Moscow, after several weeks of silence, denounced "some Czechoslovak newspapers" for blaming the Soviets for the death of former Czechoslovak foreign minister Masaryk in 1948. The next day, Pravda, in quoting Dubcek on his return from Moscow last weekend, carried the unprecedented admission that the Soviets had "expressed anxiety" on the course of democratization in Czechoslovakia. On the same day, the Literary Gazette made the first Soviet attack on a leading Czechoslovak by name, the deputy chairman of the Writers' Union, Prochazka, accusing him of holding anti-Marxist views.

The Soviet press statements are the most open and direct acknowledgement yet of Soviet hostility to events in Czechoslovakia. Their appearance, hard on the heels of the weekend conference between Soviet and Czechoslovak leaders in Moscow, adds to the impression that these most recent encounters were marked by disagreement.

The Soviet leaders clearly do not accept at face value Dubcek's assurances that he can control]

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[the pace and scope of democratization in Czechoslovakia. Their doubts have probably been reinforced through continued Soviet contacts with former party chief Novotny and his conservative cronies.

The proximate cause for the hardening Soviet position probably was Dubcek's succumbing in late April to pressure by reformers for early convocation of an extraordinary party congress. The main purpose of this meeting will be to replace conservatives on the central committee. From the Soviet point of view, retention of these men in the central committee is probably the most reliable brake on a potentially runaway situation.

Moscow also disapproves of Dubcek's failure to shut off debate on whether the Communists should share power with other parties, as well as a burgeoning Czechoslovak nationalism which is being fed by anti-Soviet press articles. In Prague's defense Foreign Minister Hajek reportedly told his Soviet counterpart on 7 May that Moscow would have to learn to distinguish between official pronouncements and the reporting of Czechoslovakia's newly unfettered press.

[So far the Czechoslovaks have stuck to their positions in the face of outside pressures. Even prior to the Moscow meeting, however, there were frequent press reports of growing fear among the leaders in Prague that the Soviets might exercise pressure in a more forceful fashion.]

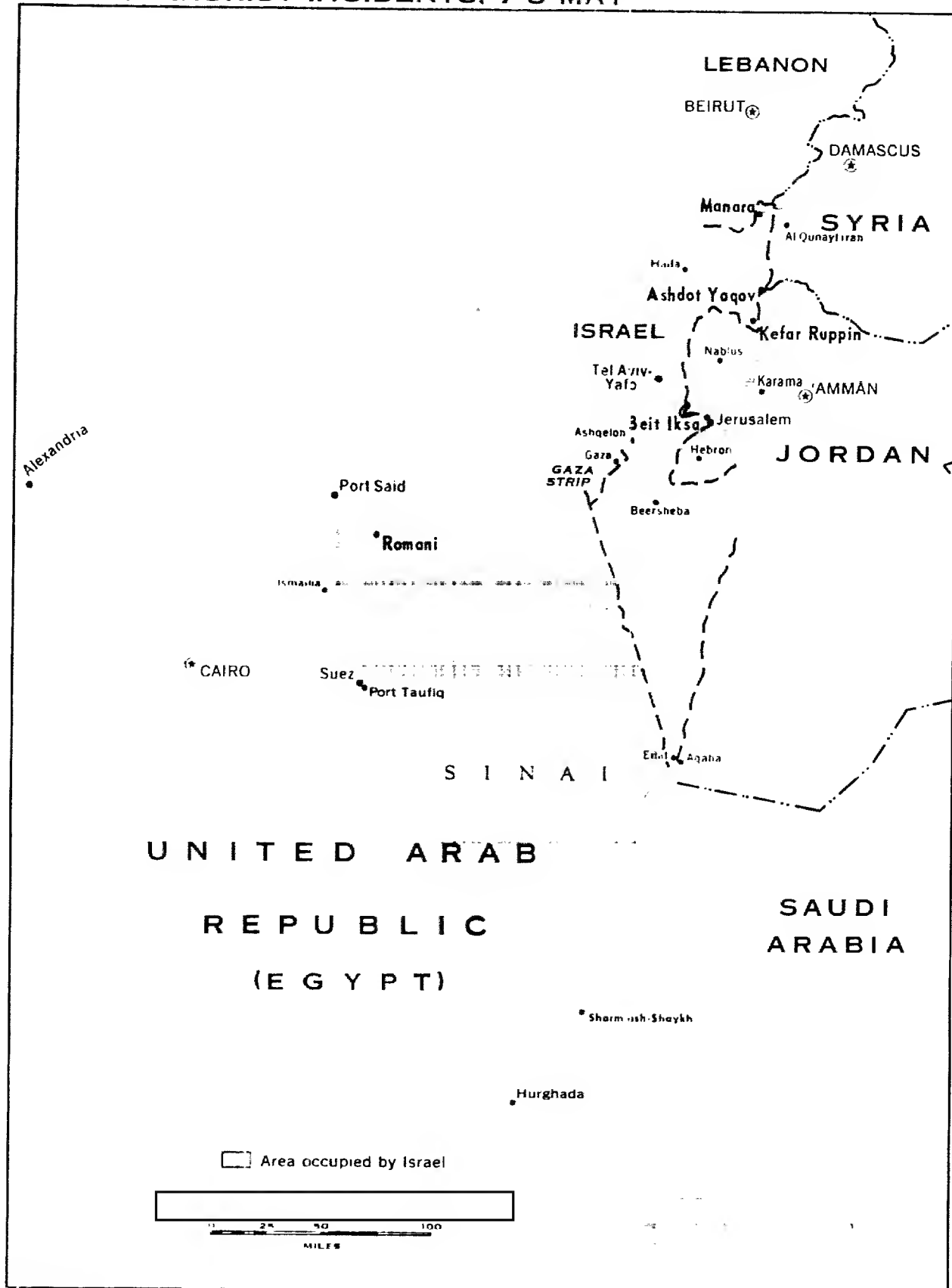
The Czechoslovak reaction to the attempts at intimidation by the USSR and its dwindling array of allies is likely to be stiff. Nevertheless, conservative elements will be emboldened to step up their sharp attacks against the Dubcek regime, thus complicating his effort to hold out against the USSR and its allies.

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ARAB TERRORIST INCIDENTS, 7-8 MAY

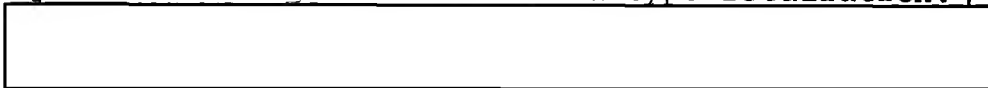


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Israel - Arab States: A new cycle of terrorist incidents in Israel and Israeli-occupied territory may provoke another counterterrorist attack, probably against Jordan.

Arab terrorists shelled the villages of Beit Iksha, Ashdot Ya'qov, and Kefar Ruppin from Jordan on 8 May, according to the Israelis. Three Israeli soldiers were killed and several wounded on 7 May by mines in the Romani region of northwest Sinai. This was the first Arab terrorist activity in this area in several months. On 8 May terrorists shelled the settlement of Manara from inside Lebanon, according to the Israelis. Incidents along the Lebanese border have been rare since the June war, but internal and external Arab pressure on Lebanon to allow the terrorists to operate within the country has been increasing.

[In the past, loss of Israeli lives has weighed heavily in Tel Aviv's decisions on reprisals. Israeli military leaders, who reportedly believe their 21 March raid on Karama was a major deterrent to terrorist activity during last week's Independence Day celebration, may therefore be pressing for another punitive strike. Civilians, however, have questioned the value of Karama-type retaliation.]



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France: Officials are concerned that massive student riots in Paris will disrupt US-Vietnamese negotiations.

Rioting by well over 10,000 students has prompted intensive security precautions to ensure that this does not happen. Steel barriers and cordons of police are guarding the US Embassy, the presidential palace and the International Conference Center, site of the talks. The highly organized demonstrations of 7 May, which occurred in defiance of De Gaulle's warning against violence, took place at the Arc de Triomphe, less than 300 yards from the center. Information Minister Gorse accused unnamed "specialists in agitation" of stirring up the students.

Gorse's accusation probably was aimed at the "New Left" student movement, a loosely organized group of socialists, anarchists, and Marxists. The group seeks greater student control over the universities and the violent overthrow of the "capitalist establishment." The majority of demonstrating students probably does not share the political goals of the New Left, which constitutes a small minority of the students.

New Left leader Daniel Cohn-Bendit, who has taken a prominent role in the demonstrations, said on British TV on 5 May that he would not remain neutral when the negotiations on Vietnam started--indicating that the group would try to stage anti-US demonstrations at or near the site for talks.



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Eastern Europe: Prospects for a good agricultural year have dimmed in all the East European countries except Czechoslovakia.

The situation is most serious in the southern countries, where extended drought and frosts in April have affected winter grain, spring plantings, and fruit blossoms. In East Germany and Poland, sugar beet seedlings have been damaged and spring grains are threatened. Winter grains there are still in good condition.

Most of these countries depend upon agricultural exports as an important earner of foreign exchange. Unless the drought in the southern countries is soon broken, most would be forced into the international grain market for larger purchases in the year beginning July 1968 than were made in the past two years. Rumania would have to curtail or stop grain exports. All would suffer further strain in their balance of payments with Western Europe, already in deficit.

Domestic consumers everywhere can expect higher food prices. Shortages are already predicted for fruit and early vegetables, commodities whose prices are largely determined in the market place.

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Panama: [It appears that the national guard will be firmly behind government candidate Samudio in Sunday's election.]

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[Arnulfo Arias and leaders of his National Union no longer have any illusion about Vallarino, and expect the guard to do everything possible, short of outright violence, to guarantee Samudio's election. They feel their only chance is to amass such a large majority of votes that it would not be feasible for the government to rig the returns.]

[Although Arias supporters will probably be on the receiving end of some violence and intimidation in the countryside, any massive fraud will be handled by the official electoral tribunal in Panama City after all the ballots have been received.]

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25X1 Bolivia: Barrientos' announcement that he is seeking Soviet aid is a tactic designed to give him greater freedom in formulating development policies.

[REDACTED]
his decision to seek a \$100-million petroleum development loan from the Soviet Union was based on an informal recommendation by the Bolivian Catholic Church, which also suggested the nationalization of Gulf Oil's operations in Bolivia. He stated that he was under political pressure to find a Soviet alternative to privately financed petroleum development. He had no illusions, he added, that the Soviets would respond positively to private soundings now being made.

Barrientos said that private foreign investment is the best means of developing Bolivia's oil potential and that his public statement on Soviet aid was made to placate his critics so that he could move ahead with the expansion of foreign investment. He is hopeful that negotiations with Gulf will facilitate an increase in Bolivian oil production and that new tax measures and a profit-sharing plan with the company will bring in revenues needed to ease Bolivia's serious budget deficit.

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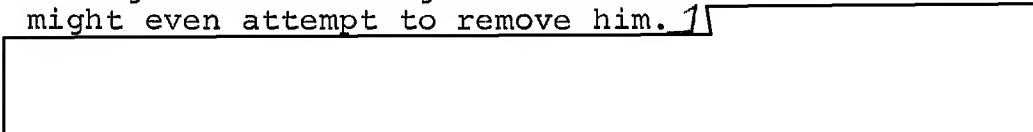
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Argentina: [The Alsogaray brothers are attempting to broaden their military and civilian support in order to exert pressure on President Ongania.]

[Army commander in chief General Julio Alsogaray and his brother Alvaro, ambassador to the United States, have long resented Ongania's authoritarian handling of the government. They have fought the influence of some of Ongania's close advisers, who are strongly conservative and nationalistic.]

[The Alsogarays are now trying to line up civilians with strong political influence and generals commanding key military units. They are telling their supporters that they favor greater liberalization in Argentina, including some forms of political activity banned under Ongania.]

[Ongania has been vague in public statements, leading to speculation as to where he stands. So far he has been adroit in maintaining a balance between the nationalists and the Alsogaray "liberals" in the government. If he shifts his support to the rightists, however, the Alsogaray coalition would probably be able to gather the necessary strength to force Ongania back to the center. It might even attempt to remove him.]



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